

30 SEP 1985

File
Stevens/Roth Revision to S. 1527

I. Primary Revisions

- (1) Provides an option to Social Security covered employees to contribute to the basic defined benefit plan and earn different entitlements than those offered under the non-contributory basic plan

Features of this option are:

- (a) Employees can make an irrevocable election within 60 days of becoming participants to contribute 1.3% of basic pay to the defined benefit plan fund.
- (b) Such contributory participants will be provided an annuity accrual rate of 1.1 percent for the first 10 years of service and 1.3 percent for all other services. This rate is slightly higher than the accrual rate applied for non-contributory participants (0.9 percent for first 15 years and 1.1. percent for remaining service)
- (c) Contributory participants will be permitted to retire at age 55 with 30 years of service on an unreduced earned annuity (based on a high-5 average salary base).

- (d) Contributory participants may participate in the Thrift Plan but with a lower government matching rate of .50 per employee \$1.00 up to 6 percent of salary.

Comments:

This revision offers a structural improvement in the Stevens/Roth bill but the potential utility of this option for early retirement is nullified because of the low coverage accrual rate (1.2 percent) even though it is slightly higher than the non-contributory accrual rate.

- (2) Modification of the original proposal accrual rate for non-contributory participants.

The accrual rate of a flat 1 percent for all service in the original S. 1527 bill has been changed to a 0.9 percent for the first 15 years of service and 1.1 percent of service beyond 15 years.

Comments:

This revision would appear to be a token effort to encourage retention of employees for longer career service. The slight differences in the accrual rates are too insignificant to influence career patterns.

- (3) Provides for retention of the current retirement eligibility age of 50 with 20 years of service or 25 years of service at any age for special classes (law enforcement, fire fighters, and air traffic controllers) and reinstates mandatory retirement at age 55.

The original version of S. 1527 changed eligibility for these special category employees to age 55 with 25 years of service. Such employees retiring with 25 years of service but under age 55 were penalized with a 5 percent reduction per year below age 55 and no supplement payment before 55.

Comments:

The restoration of the current retirement eligibility criteria (50 with 20 years service) for special categories would be expected to provide exclusions from the early retirement penalties applicable to non-special class employees. A close review of the several sections applicable to annuity computations and penalties does not include any exclusion for special classes from penalty reductions for retiring before age 62.

The special class annuity formula does not offer a preferred accrual rate and will use the same basic low yield formula for regular employees.

Here again, restoration of the 50 with 20 years of service criteria, while a structural improvement in the Stevens/Roth proposal is nullified because of the extremely low basic plan accrual rates and imposition of early retirement penalties (if this is not an unintentional omission in drafting the new bill).

II. Other Revisions to S. 1527

- (1) Change in the title of S. 1527 from "Civil Service Pension Reform Act of 1985" to the "Federal Retirement Reform Act of 1985" and additional item in stated purposes of the act.

The stated purposes of the bill have been revised with the addition of a new item, "(2) to assist in building a quality career work force in the Federal Government".

Comments:

You can't make a silk purse out of a sow's ear.

The title change and inclusion of a work force management objective for the proposed new plan without substantive changes in the essential provisions of the proposal does not change the emphasis of the plan on pension benefits rather than use as a work force management tool.

- (2) Annuity supplement for special classes would commence at retirement rather than at age 55.

Comments:

This is a structural improvement in the plan but is nullified as an inducement for maintaining a young and vigorous work force because of the low defined benefit accrual rate and imposition of penalty reductions (if indeed this is intended as now indicated in the new wording of the bill).

- (3) Status of tax liability for employee contributions to the Thrift Plan

Comments:

The original S. 1527 bill proposed 401k type income tax deferred status for employee contributions and earnings. The new bill - in keeping with the President's tax reform proposals which would eliminate current 401k exemptions - now simply states that equal treatment of Federal and private sector employees savings would be maintained according to future modifications of the tax law.

Should tax deferred status be eliminated for the Thrift Plan, the real value and appeal of this capital accumulation plan would be severely weakened.

(4) Deletion of free FEGLI to plan participants

Comments:

This proposal in the original bill was not really a legitimate element for a true retirement plan but should have been treated as it has been in the past under other employee benefits.

(5) Inclusion of provisions allowing disclosure and access to individual tax returns and tax return information on disability benefit recipients for purposes other than tax administration.

Comments:

This provision would permit disclosure of income tax return information to Federal, State and local agencies administering certain programs such as administered under the Social Security Act, Food Stamp Act or other civil service disability benefits programs.

This authority to Federal, State and local government agencies to access individual salary/wage records would present new security problems for the CIA - over and above the current burdens experienced in handling our casualty cases.

(6) Miscellaneous technical revisions to S. 1527

Comments:

Typical with the introduction of any new legislation there are myriad requirements to amend other existing legislation to effect compliance.

Many of the S. 1527 technical revisions refer to the Thrift Plan; interface of entitlements with social security, disability, and survivor benefits.

II. Reemployed Annuitants (retired under other retirement systems section 8474 pg 110.

An annuitant retired under a U.S. government system (CSRS, Foreign Service, CIARDS) who becomes employed by the government after the effective date of the Federal Retirement Reform Act (S. 1527) shall:

1. Retain entitlement in the government retirement system under which they are recurring an annuity.
2. Service creditable under the government retirement system of a reemployed annuitant shall be credited only for the purpose of determining eligibility to retire (i.e. service) entitled to an annuity under the new system.

3. Service performed as a reemployed annuitant shall not be creditable service for purposes of the government retirement system of the reemployed annuitant.

4. Rates of basic pay in effect before the date the annuitant begins to participate in the new system shall be taken into account in computing the annuitant's average pay for the purposes of this chapter.

5. Deductions may not be withheld from the pay of the reemployed annuitant for the purposes of the reemployed annuitant's government retirement system while the reemployed annuitant is a participant in the system.

Committee Members Present - Stevens, Gore, Eagleton, Glenn

STATE DEPARTMENT has requested to be part of Roth/Stevens - wants 50/20 preserved and separate administration

OPM supports Bill with following major exceptions:

- (1) 401 K - goes against Administration tax efforts.
OPM will work on alternatives with Committee
- (2) Special categories (law enforcement, etc) - need something more in line with current systems.
- (3) Crediting of unused sick leave - OPM feels should be eliminated.

Unions wanted more benefits added to make system equivalent to existing benefits

- 55/30 with unreduced benefits
- full COLA
- less of thrift and more to defined benefit portion, i.e., higher accrual rate

Stevens recognized there will be change - stated need to improve survivor benefits.

He recognized needs of special categories but not convinced age 50 is necessary.

Stevens wants to go to mark-up as soon as possible - 401k problems may throw a monkey wrench into bill until some alternative is formulated.